Testimony of Betsey Martens

Co-Executive Director
Boulder Housing Partners

Before the House Government Reform Committee's Subcommittee on Federalism and the Census

Regarding Challenges Facing Public Housing

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Mr. Chairman, I want to sincerely thank you for the opportunity to testify today and for holding this very important hearing. My name is Betsey Martens. I am the Co-Executive Director of Boulder Housing Partners (BHP), the public housing authority serving the city of Boulder, Colorado. I am also pleased to serve as Public Housing Subcommittee Chairperson of the National Association of Housing and Redevelopment Officials (NAHRO) and as a member of NAHRO's Board of Governors.

As we meet today we face a significant challenge in the management of public housing. Public housing is an irreplaceable asset that the federal government has invested in for over seven decades. In my community, public housing provides a safe, decent and affordable home to more than 857 low-income, elderly and disabled individuals. Together with my colleagues at this table, and around the country, we provide housing for millions who have serious housing needs due to age, income or disability. We fight the good fight everyday because we know that public housing represents, for many very low-income families and individuals in our communities, the line between decent shelter and homelessness.

Public housing is a largely successful response to our country's long-standing commitment to ensure that those of lesser means are well housed in decent, safe and viable communities. That success notwithstanding, within my portfolio of 991 units, and among six different housing types, public housing is by far the most challenging asset I manage.[1] Why is this?

In preparing for this hearing I have searched for a reasoned response to this question. The answer I have arrived at is simple. I cannot manage public housing the way I need to manage it, nor can I manage it as I do the other assets in my portfolio that I run like conventional real estate. I have an essential community asset (and let me say right from the start that, contrary to popular belief, the number of people living in poverty in Boulder exceeds the national average) that I take great care of it, but current regulations quite literally tie my hands and put the asset at risk.

As a result, I have begun a process in Boulder of disposing of our public housing. Our disposition strategy will result in a repositioning of the asset and does not reflect a decision to abandon the deep affordability that public housing represents. To the contrary, for Boulder, it means that we believe we have found a way, through current regulation, to do it better.

Given the vital importance of this asset, and the extent to which I would prefer to keep public housing and avoid a disposition process, the bottom line is that if I were able to run this real estate

[1] The six types of housing are: Public Housing (383 units); Section 8 project-based certificate (124 units); Section 8 project-based vouchers (45 units); Low Income Housing Tax Credit (141 units); Workforce Housing (210 units); Market-rate Housing (126 units)

in the way I know how, and manage it like a conventional real estate asset, most of the problems I will describe to you in this testimony would be significantly mitigated.

In order to manage this inventory successfully, five fundamental imperatives must be addressed:

1. Rent reform
2. Preservation of the physical asset
3. Flexibility to reflect local market conditions and the ability to operate in a de-regulated environment
4. Recognition of the significant service needs of our residents
5. The ability to restructure the underlying financing

Rent Reform

I have 383 units of public housing and I have 383 different rents. Rent is based on 30% of each family's adjusted income, accompanied by a subsidy from HUD that, theoretically, covers operating costs. This approach is exactly backwards. Currently, the amount of rent a family pays is tied to their adjusted income. The subsidy I receive from HUD is tied, loosely, to my cost of operation. More logically, the amount of rent I receive needs to be tied to my cost to operate. The subsidy needs to be tied to family income. Otherwise, from year to year, and even from month to month, I don't know what income I have to work with to maintain a significant and varied housing portfolio.

The rent I receive is unrelated to the product itself and my cost to manage it. The rent paid by residents is unrelated to the value they receive and the rent they would pay in the market. In communities where neighbors talk, few can make sense of why one family, living next door to and in the exact same apartment as another family, might be paying $400 per month less for the same value. The inevitable underside of the safety net we have created is that our residents find the current rent policy confusing and invasive. In the worst case, our rent structure fosters deception and, for some, can actually discourage work.

A rent based on income puts tremendous pressure on its definition. Over 27 years of implementing income-based rents, HUD has developed a complex and convoluted set of regulations governing the definition of income. My property management staff spends often up to 60% of their time calculating rent. I need them, instead, to be out on our properties, talking to our customers, leasing units, walking the grounds, planning programs, solving problems, considering future needs of the property and generally being a positive and visible part of the housing community. Instead, they are tucked away in their offices poring through shoeboxes full of medical receipts.

I need to have residents who are motivated to increase their income, rather than motivated to hide it to keep their rent low. A system that rewards a low income is no champion of self-sufficiency or increased prosperity. Twenty-five years ago, as the Director of my local Community Action Agency, I lobbied my housing authority for rent reform in my role as a tenant advocate. No less a tenant advocate today, I still object to the principle that every time one of our families gets a raise, the housing authority is there holding its hand out, wanting 30% of that raise in rent. How are families supposed to get ahead if they can't put their increased income in the bank?

If we could simplify rent, we would free up significant resources for both housing authorities and HUD. We have developed a tangled web of complexity and oversight in the interest of rent integrity. We now have three required levels of income verification on a reporting form that has grown from two pages to 11. There is a massive investment of money and time for all of us to force, and enforce, rent integrity in a system that seems almost designed to invite applicants and residents to report inaccurate income, either by mistake or intention. I agree that the elderly family, who reports only one of their two Social Security incomes because the 90-year-old patriarch grew up in an age where only men were the breadwinners, should pay their fair share. I think we can improve a system in which I will spend hundreds of dollars in staff time to get this additional $127 in rent, and HUD will spend much more to check to see that I have gotten it right.

HUD has introduced a tool that shows some promise. But, like many HUD tools, it has been released before it is ready for prime time. The new Enterprise Income Verification (EIV) system is helping us find unreported income. We are optimistic about the ease with which we may be able to verify accurate income. But there are notable, if not painful, flaws. For example, one of our participants, a 72-year-old woman living with her 81-year-old husband on an Old Age Pension, was recently a victim of identity theft. As a result, EIV reported to us that her pension is now supplemented by full time employment at a fishery in Portsmouth, Maine. HUD would have us take that information as fact, despite the improbability of the commute, and perhaps even her suitability for the work. Had we not recognized her name and intervened to check the information using a different database, her new income would have increased her rent from $330 to $895, which she would have been obligated to pay while she, personally, worked to regain her Social Security identity and prove to us that she is not working at a fishery in Maine.

Our alleged fisherwoman is not the only victim in this story. We transmit every income and rent calculation to HUD through a massive database called the Public Housing Information Center (PIC). PIC will reject her file because her income registered in EIV will not match the income that we have verified and reported. If more than 5% of our files are rejected in a month, HUD will sanction us by withholding 5% of our subsidy until the problems are corrected. EIV is reporting dozens and dozens of false income reports that, besides being wrong, lag three or more quarters behind real-time. These false reports may even be the source of HUD’s impression that there are many ineligible families participating in housing assistance. Nonetheless, the time and expense for us to maintain PIC reporting is a problem that I will address in more detail below.

The Quality Housing and Work Responsibility Act of 1997 (QHWRA) tried to address rent reform. The spirit of the legislation was right, but the implementation took only a half step and made a program that, for my community, confounds rather than contributes. We are now required to define a ceiling rent—in other words a market-comparable rent—for our public housing units. We offer residents a choice of the ceiling rent or an income-based rent, with the caveat that a loss of income can trigger a return to the income-based rent. This is the half step. We cannot have a rent system that requires us to forgo rental income when family incomes go up and forgo rental income again when incomes go down. It doesn’t take long for that system to fail and cross over to become a net loss.

In our community, we try to implement the rent options with a straight face. The average income of the 112 public housing residents living in one-bedroom apartments in my housing authority is $8,360 annually. Their rent based on income is an average of $209. Every year we ask them if they would like to continue paying $209 or would they prefer to pay the flat rent of $600. You can imagine the answer. And, of our 383 public housing families, we have 8 families paying the flat rent.

QHWRA gave us rent choice, not rent reform. Rent choice, for us, is like putting perfume on a dog that has had a run-in with a skunk. What we need to do now is wash the dog, not freshen her up. The whole system needs to be taken apart and rebuilt. We all have to be asking the question of whether spending millions to enforce compliance with an inherently flawed system makes more sense than simplifying it and redirecting the resources to more productive goals. We all need a rent system that supports an asset management strategy that will preserve our collective investment in public housing, which we consider to be an irreplaceable asset.

One place to start is to adopt a percentage of gross income rent structure with a single standard deduction for those who qualify for medical expenses. This approach needs to acknowledge the differential tax treatment of earned income, pension income and unearned income. Eliminating all deductions to income other than a single, and standard, medical allowance would go a long way towards simplifying the system and minimizing confusion for residents. This strikes me as the best option for elderly and disabled families whose income is fixed.

A percentage of gross income achieves the rent simplification goal but does not address the current disincentive to work. In order to promote work and self-sufficiency, we need to also evaluate a flat rent system. A flat rent would not be affected by increases in income, allowing a family to protect their savings. In either case, we need to move quickly to rent reform, because the cost of the current system, as the box below demonstrates, may be our undoing.

The Cost of Calculating Rent

Our elderly and disabled residents who are eligible for a medical deduction often come into our office with shopping bags, and even the occasional suitcase, full of receipts for items purchased under doctor's orders. Staff sort through a year's worth of receipts for everything from bananas and Vitamin C to prescriptions and Depends. Not only does this take hours and hours of staff time, but it is overly invasive to the resident.

We have one resident with more than 35 prescribed supplements, each one requiring a calculation of future cost done by reviewing the label, dividing the number of pills in the bottle by the daily dose prescribed and multiplying by the cost of each bottle. Imagine doing this not only 35 times for one customer, but for everyone in your caseload who claims a medical deduction.

Each certification of income takes 5-6 hours. Each of my staff has a caseload of approximately 150 units. If they spend five hours calculating rent, that is 43% of their time as property managers just assigning rent! And that is assuming someone's rent does not change in the year. We adjust rent within ten days if someone has an increase or decrease of income. With rent adjustments, our property managers are spending 60% of their time assigning rent to a unit. Compare that to an FHA or private sector manager who spends almost no time in rent calculation and limited time in income verification. Property managers then have time to talk to customers, walk the property, plan for improvements and manage their sites.

Preserving the Asset

Our capital investment program at Boulder Housing Partners guides our investment of funds by four priorities: life safety; general risk or code enforcement; building system failure; and landscaping/appearance/resident requests. Our annual funding from HUD in the amount of $923 per unit annually ($350,000 total, net of administrative and operating costs) allows us to just barely address the first three. The impact of ignoring systems and curb appeal is not trivial. We are the largest producer of affordable housing in our community. The way our properties look in the community is our own particular testimony to nervous neighbors and to our belief that the new project we are proposing will be an asset to their neighborhood.

Our first public housing units were built in 1972, meaning that the entire system is reaching the end of its life cycle. Despite a talented maintenance staff that is expertly managed, our assessment is that we are currently deferring close to $1 million in improvements annually. Our 20-year capital needs assessment confirms this and, more to the point, a project underway underscores the amount of ground we have lost due to the absence of appropriate capital tools. I mentioned that we have begun the process of disposing of our public housing because, despite our deep commitment to the affordability and excellent management practices, we have concluded that we can no longer fulfill our fiscal responsibility if we keep public housing in our portfolio. In this first project, we will sell 46 units of public housing built in 1982 into a tax credit partnership in which 26 additional units will be built on the site. Our cost to make the public housing units comparable to the new tax credit units is $42,000 per unit. The redeveloped site will include 72 units, with the original affordability preserved by using project-based vouchers.

I agree that one solution for public housing is to encourage a broader cross-section of lower income families. However attracting those families to housing in which building system and curb appeal needs, despite attentive and careful maintenance, have been deferred will become a more impossible goal each year that we let the problem grow. Capital needs, not unlike the needs of willful children, do not just go away if we leave the room.

The current system of annual allocation of funds is inefficient and promotes a band-aid approach to asset maintenance. We have to staff the program at .75 FTE just to comply with the oversight requirements that go beyond the good practice of reporting, planning and involving residents. These reporting and tracking requirements are cumbersome. And, while involving residents is great practice, it reminds me of the three days I spend to prepare my need-based public housing budget only to have HUD award me a percentage of last year’s funds. In a resource-restricted environment, asking people what they want, or need, may not make any sense.

The comparable investment for a private sector manager working on $350,000 of capital improvements, according to industry convention, would range from 3-5% of project cost, or $17,000 in my case. It would be rare, however, to find a private sector owner managing a small-scale improvement program. They would implement a one-time cost-effective major renovation project. QHWRA tried to address that problem by allowing us to leverage our Capital Fund but, eight years later, the regulation has still not been written. In addition, the process to package a Capital Fund-leveraged deal is daunting, at best. We often feel that we’re asked to address the most challenging maintenance needs in our community with one arm tied behind our backs.

QHWRA intended to take us a step closer towards reasonable management by allowing some fungibility between Operating and Capital Funds. While I am grateful to be able to redirect 20% of my Capital Funds to operations, which I do because I absolutely must, I am diluting a resource that is already thin. Luckily, in Boulder, we have a community that understands the critical need to preserve the assets in which we have invested. The City of Boulder has funded a long list of capital improvement requests through their HOME and CDBG allocations, as well as a local housing trust. I am greatly concerned when I hear that CDBG is scheduled to be reduced by 25% in the FY 2007 budget. How will the citizens who advise our city about the allocation of housing funds weigh my very real needs against the equally pressing needs of the homeless shelter and the safe house?

If I were in a community in which I had to rely entirely on Capital Funds, I would have no other cards to play and my second arm would be tied up with the first. I would be losing ground even faster than I am.

Flexibility and Deregulation

Contrary to its original intent, my observation of QHWRA, backed by our experience in Boulder and shared by my colleagues in the western states, is that it has done nothing to decrease the amount of HUD's oversight and micromanagement. In fact, there is much to suggest that it has worsened. That being said, there are some things to be grateful for with the passage of QHWRA, particularly the merger of the Section 8 certificate and voucher programs, the elimination of federal preferences, the disposition provisions and the repeal of the one-for-one replacement requirement.

I think, however, that the deregulation contemplated in QHWRA is really re-regulation. We now spend a large amount of staff time on the new administrative provisions of QHWRA, specifically the agency plan, the community service requirement, the de-concentration of poverty requirement, the income targeting strategy, rental integrity and its associated PIC reporting, the Public Housing Assessment System (PHAS) and the new field review process, to name just a few.

The new regulatory requirements that have created the most burden for us are the latter three, all of which have been carried out by HUD at its own initiative in the spirit of oversight—PIC reporting, PHAS, and HUD comprehensive reviews—and end up being very costly.

Public Housing Information Center

For my 383 public housing units and 600 Section 8 vouchers, I have to assign the equivalent of .5 FTE to manage our PIC reporting. PIC requires us to report monthly on a wide range of activity including move-ins, move-outs, vacancy rates, annual re-certifications and interim re-certifications. We now report almost every resident action to HUD using an eleven-page form that populates a database allowing HUD to know more about residents and housing authorities today than ever in the past. The database is impressive, but I really wonder who is looking at this data and how we are using the information. Will there be a return on investment to all of us for this effort? And, I have to wonder what is being sacrificed while housing authorities and HUD are reporting and collecting millions of pieces of data.

I do not want to send the wrong message. I am a very strong advocate of good stewardship of taxpayer dollars and fiscal responsibility. But we seem, at this point, a bit out of bounds. Perhaps the problem is that the technology is not capable of implementing the regulatory requirements. We spend a disproportionate amount of staff time correcting PIC problems in order to avoid the sanctions associated with reporting under 95%. I believe there is a better way to do this.

PHAS

PHAS (the Public Housing Assessment system) replaced the Public Housing Management Assessment Program (PHMAP). PHMAP was a useful tool for me and I included its performance indicators in my management reports. In its place we have PHAS, which is not helpful to me and seems to be based on an unproductive culture of trying to catch us doing something wrong. For example, when PHAS was introduced I wanted to know how to get the best score in every category. Per the principles of QHWRA, PHAS was meant to be the tool that would allow HUD to recognize and reward the top performers. I wanted both the recognition and the reward.

I had easy access to the many formulas that would calculate my scores. Those were all published several times in the Federal Register. But to find the underlying performance for the scores, I had to work surprisingly hard. Finally, I called the Director of REAC who got me the answer, but only after some research herself. No one on the HUD staff knew the definition of excellence, and no one could tell me how to "win." There is something wrong with a system if every single player does not know, indeed does not have at their fingertips, the standards of excellence for a housing industry.

The story gets a little worse. My housing authority currently has a "substandard financial" rating based on our 2004 performance. In 2004, we refinanced several of our non-HUD properties that had balloon mortgages. When you refinance, the entire mortgage balance shows up in the current portion of the long-term debt. This is not unusual, but your balance sheet indicates that current assets are not sufficient to cover current liabilities. In a normal business environment, the activity would be footnoted, the risk understood and the refinance carried out. Instead, in the PHAS system, we received a score of 0 for the current ratio, losing 9 of 30 points, or just enough to drop us into a substandard category. In addition to the point of pride, as a substandard agency we do not compete well in grant applications and we lose bonus funds in the Capital Fund program. Can this be right?

Comprehensive Reviews

From time to time, and more times in my case because I am very close to my Field Office, HUD staff will come out to do a bumper-to-bumper review of my operations. I want to clarify that I think our Field Office should be a model for the rest of the country and my comments should not be seen as an indictment of good people carrying out instructions.

When the HUD field staff came to do a Comprehensive Review last month, much of their activity was redundant in most every instance, with the exception of the RIM review. They sat in the chairs still warm from our independent auditors and spent an entire week of their time (3 FTE) and our time (4 FTE) re-reviewing work just done by others. They checked files that our independent auditors had just checked; they reviewed financial statements that our auditors had just reviewed; they inspected units that REAC had just inspected. I am pleased to report that they were very impressed with our administration of the programs and found nothing substandard about our housing authority. While that assessment is nice, it is not necessary.

Additionally, HUD staff provides oversight of our non-HUD portfolio on the theory that our non-public housing activity might put our public housing at risk. The irony for me is that my public housing, which is on track to lose $649,000 in 2006, is the biggest risk I have and puts the rest of my portfolio in measurable jeopardy. I suggest that HUD does not need to be reviewing non-HUD activity unless its "own" assets are performing or are encumbered in some way by non-HUD activity.

In lieu of this extensive regulation and oversight, I propose that we negotiate a performance contract with HUD that outlines reasonable expectations for the subsidy provided and clearly articulates how all stakeholders will be rewarded by good performance. This agreement could be developed within a Carver model of governance. The Carver model acknowledges the impossibility of an oversight body outlining everything that is permissible, and instead defines the things that are not permissible. That leaves the Executive to be as creative as s/he can with partnerships and local solutions to achieve the result that both HUD and communities want.

Moving to Work

BHP's 383 units of public housing make us the ninth largest provider of public housing in our region. Even as a comparatively large provider in the west, we do not have a demographic typical of the myth of public housing. Our public housing residents are elderly, disabled or working. Despite having income from work or benefits, ninety percent (90%) of our families have income below 30% AMI. Of the entire population, 65% are elderly or disabled; 39% are working families; and 1% receives TANF benefits.

Much of HUD regulation since, and including, QHWRA appears to assume that public housing residents would work, or work more, if housing policy forced the issue. We are not a Moving to Work (MTW) agency because we do not have a population that needs to move to work, yet we are an agency that would have been a great test site for deregulation. We need deregulation opportunities for housing authorities where moving to work is not the problem. We need deregulation for housing authorities that want to Move to Excellence. This is another example of how the good intention of Congress can get lost in the translation to HUD regulation.

MTW may be good for many agencies, and should be expanded to as many as 100 sites as NAHRO has suggested, but prescribing it for all would, similarly, I believe do a disservice to the goal of allowing housing authorities to shape their programs to community need. I mentioned that our inventory of 383 units makes us a medium-to-large provider in our region. By comparison, then, many of my neighboring housing authorities have very small programs and the thought of re-writing the program guidelines might be more than the typical one staff person can manage along with leasing, maintenance, rent collection, bookkeeping and compliance.

Asset Management

We are currently in the midst of an all-too-familiar pattern of HUD taking a very good idea and over-regulating and micromanaging it until it becomes a bad idea. HUD is actively implementing its vision for project-based accounting and management. The principles of asset management, including project-based accounting and management, are excellent. They are well-tested principles that come to us from the private sector and they are principles well-understood by my housing authority.

The implementation of asset management, however, is a classic example of HUD over-stepping legislative parameters and substituting a "one-size-fits-all" formula where a principle of local responsiveness and flexibility is not only essential but the cornerstone of asset management. Having converted my public housing to project-based accounting last year, I find that it provides the kind and quality of information I need to manage my operations and assets. However, considering that most of the housing authorities in my region have fewer than 250 units and may well designate their small inventories of scattered sites into a single project, HUD could spend a lot of time and effort and nothing will have changed.

My objection concerns project-based management. The final rule says that it should be implemented to the maximum extent possible. That is as it should be. However, HUD is forcing the issue through its funding formulas and the definition of what can be attributed to the central office cost center and what costs can be allocated to sites. For example, my colleague in Santa Barbara will not be allowed to attribute costs for their central warehouse, which is across the street from their biggest public housing property, to that property because the warehouse is not "on the site." Can this be right? Can this be what we intended when we ask housing authorities to apply the best practices from the private sector to our own properties, as different as they are?

My housing authority experimented with project-based management nine years ago and learned a number of important lessons. One, we found that the technique did not fit our inventory very well, which is largely low density and scattered units. We also found it expensive to operate. And, we found that the extensive body of regulation required to manage public housing practically forces a centralized and specialized operation.

For example, at my two elderly/disabled sites (95 units and 50 units) we used to have resident managers who had full charge of the building according to the classic project-based management model. They were teamed with a maintenance staff and together they leased and maintained the building. We now know that the kind of person that you need who can market the units and manage a community of high-need, multi-generational residents is not the same person that can wade through the shoebox of receipts to accurately calculate rent and determine annual eligibility. We also know that, with the continual reduction of operating subsidy, we could not afford to provide on-site staff at this level. Now, instead of an on-site manager managing 95 units, our subsidy (which is scheduled to be reduced to 81 cents on the dollar in FY07) requires a single staff person to manage 145 units.[2] We have pulled our staff off site and now have a central team approach in which one person does all of the eligibility, admissions and recertification, and one person leases the two buildings.

HUD will not preclude me from managing as I deem appropriate. However, I may be considered non-compliant with asset management and not eligible for an asset management fee. Or, too many of my costs will have to be assigned to the central office, an activity for which the costs are capped at the sum of a management fee, an asset management fee, and a bookkeeping fee. For a deregulated environment, this is an excessive dose of prescription.

I have to wonder what will be served by an insistence that there is only one way to effectively manage property. We have to remember that this is the same HUD that once insisted on high-density housing in order to gain maximum land value. We feel fortunate in Boulder to have had the ability to reject HUD's opinion and build our public housing according to the values and land use patterns of our community. HUD should promote the principles and best practices of the industry, not insist that project-based management is the right tool for everyone.

[2] Boulder is one of the housing authorities, however, that is scheduled to be a "winner" in the new operating subsidy. We have historically been so under-funded that our subsidy will increase by 181%, and even still will leave us with a net loss from operations.

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Recognition of the Service Needs of our Residents

Our industry, and our housing authority, has been engaged in a decades-old debate about whether we are property managers or social service providers. I suggest that there is no need for debate because the two are inextricably linked. In Boulder, I cannot be a successful manager of property if I cannot provide the services residents need to live independently and with dignity, to remain lease compliant, to take good care of the property, to be good neighbors and to gain a measure of economic- or self-sufficiency. We have a well-articulated vision in Boulder for resident services which includes three key ingredients: ***live, learn, and earn***.

The "live" component is focused on property well-being and asset protection. We work with residents in order to:

- Minimize accidental and willful damage in order to reduce maintenance costs and excessive wear and tear on units
- Encourage/enforce lease compliance
- Enhance security
- Maximize resident involvement
- Create healthy communities and organize activities for youth, teens and adults

Our greatest challenge relates to a resident's ability to "survive" in the housing to which they have gained access. This is the most emergent category in that, frequently, residents are not exhibiting the skills required to live peacefully and productively in a community setting.

The "learn" component focuses on individual well-being and self-sufficiency. The services typically include job training, childcare and transportation, for which we use partner agencies to deliver the services. BHP rarely takes on the role of direct service provider.

The "earn" component is closely tied to the concepts above. This strategy, however, is less concerned with individual well-being and more concerned with increasing incomes, which moves people through our units more quickly. This component is an important part of our supply strategy.

Sadly, I believe that HUD has lost its way with respect to this holistic view of our housing mission. It is essential that we care as much about quality of life for our residents as we do about the quality of our assets. There is a lot of talk about meeting resident needs, but I was among hundreds of housing authorities who lost Public Housing Drug Elimination funding and had to shut down the effective programs that were implementing the Live, Learn and Earn strategy. In the last two years I have lost 100% of my operating funding that provides services to our residents. Our service coordinator was re-assigned to the leasing department where she does what she can to help property managers who have had to pick up the slack. The Director of Resident Services is now the Director of Resource Development, where she is no longer focused on resident well-being but housing authority well-being, and her job is to raise money for operations, or save money through energy conservation. This is a good business decision. But, does it best serve the needs of our citizens?

In Boulder, people find their way to public housing for a variety of reasons. Most, but not all, are economic. For some, especially those who have been chronically homeless, public housing is the victory at the end of transitional housing. For others, public housing is their last stop in life. For many families, it is a temporary stopping place while they gather skill and money to move on. For one of our residents, Joe, it was a life saver.

On the second day of his residency we found Joe naked in the window of his fourth floor apartment. Addicted to inhalants, Joe's grasp of reality was fleeting. In the first month of tenancy we learned that Joe was a danger to himself and his neighbors. We discovered that he had many unauthorized guests with whom he shared his addiction. His elderly neighbors in his high-rise building were terrified of Joe and his friends. Joe was completely invested in his lifestyle and had no interest in changing his behavior. My resident services staff coordinated a response and an intervention involving the police, the Adult Protection Team, drug rehabilitation experts and the Mental Health Center. Today, Joe is chemical-free and a model tenant.

Joe was lucky, and so was the community. His story could have ended with homelessness and significant expense to the emergency service/homeless infrastructure. We know that keeping people housed is the most economical option and the best outcome for everyone. We have found in Boulder that many of our resident needs, particularly those of elderly and disabled residents, can be met if we can make the small investment in service coordination to link residents with the extensive network of services available in our community.

A no-cost change that would help us immediately would be to return to the original definition of an elderly person. Our experience with mixing elderly people and young people with disabilities in high-density housing is not positive. More than anything, it is a problem of generations. I know very few 80-year-old women who appreciate the sound of rock music wafting through their bedroom wall.

In order to provide public housing to the most vulnerable citizens in my community, resident services must be considered an integral part of the program and a fundamental cost of doing business.

We provide ten apartments for homeless individuals at one of our newest developments. These street-worn men and women, who also suffer from severe and persistent mental illness, are not who we typically consider being ideal neighbors, yet they are thriving in Boulder's newest, and most acclaimed, Holiday neighborhood. They are doing exceptionally well in their housing for a reason that may surprise you. "They are trying to make their lives reflect the beauty of the housing you've given them," is the explanation given to me by their Mental Health Center case manager.

In order to manage public housing today, I need to be able to reproduce this story everywhere. Isn't that the goal of housing policy? To build good—no, to build *great*—housing that will transform peoples' lives.

Restructure the Underlying Finance

Most of the problems I have addressed so far could be solved by changing the way funds flow to public housing. Managing public housing today is like driving a car without an engine. Public housing looks and feels like real estate, but it is missing the central drive train required for successful asset management: predictable, sustainable rental income. All of real estate operates on the principle of an economic rent. An economic rent is rent sufficient to meet expenses and plan for the future needs of properties in order to protect the asset.

Instead, we have an operating system that is upside down. We have rent that is based on the family's income and a subsidy based loosely on the cost to operate. Right side up, we would convert the system so that rental income is relative to the cost to operate and maintain the property, and subsidy would be relative to the family's ability to pay the rent. This is the system that we see in the voucher program. In public housing, the current operating subsidy directs funds to us in a series of largely inflexible streams: one for operating, one for capital and, when we're very lucky, one for resident services. Besides the fact that, in our case, all of the streams of funding are insufficient to meet the asset needs in my inventory, it makes for an unpredictable and unwieldy system to manage.

What I need, instead, is an economic rent from HUD in which I will be guaranteed the funds required for basic operating costs, including resident services, and capital needs by making an annual contribution to a reserve for replacement and/or financing capital improvements through debt. This is the model I use to manage everything else in my portfolio. The degree of difficulty, while still relatively high compared to the private market, is a fraction of the difficulty in managing public housing currently.

In this scenario, common to every housing type except public housing, rent is the economic engine. At my option, the rent would be at comparable market rent for my area, or determined on a budget basis taking into account the need to provide for sufficient replacement reserves to replace capital funding. A HAP contract would provide subsidy for as many people as possible, after which I could rent units to families who can pay the economic rent without subsidy. HUD would monitor my performance from bottom line indicators, and my neighborhood banker who has invested in my capital financing needs would provide closer and more rigorous oversight than HUD ever could.

This scenario accomplishes several things. It allows HUD to sub-contract its very important job of risk management and asset performance monitoring down to the local level where it belongs. It creates a relationship between subsidy and the number of families we can house (currently when subsidy is reduced, we maintain our obligation to house the total number of families and have a greater challenge in communicating the impact to Congress). The economic rent would reflect the local market and the value of the product a family receives. It should allow for resident services to be recognized as a standard operating cost.

If we do not have the appetite for a new program, we can and should give serious consideration to the idea of converting public housing to a product similar to a project-based property in which an economic rent plus subsidy model would assure that housing authorities can keep the promise to their community that they will meet the shelter needs of all of their citizens, not just the ones who are the richer poor. In addition, rent fairness and simplicity would be a good unto its own. However, I urge Congress to take a comprehensive look at the entire public housing program.

One of the many advantages of being associated with NAHRO is that it provides me with an opportunity to work with some of the brightest, most committed and most innovative professionals across the country in housing today. In doing so recently, I am both concerned and distressed to report that, not unlike my own situation in Boulder, many of my colleagues are seeking exit strategies and ways to responsibly dispose of their public housing inventories. They have not given up or lost sight of the mission; absolutely not! Instead, many of them find themselves in the same position I have tried to document here today. Absent change and reasoned responses to the five imperatives I have addressed, many of my colleagues will, of their own volition or out of necessity, look for new and different ways to meet local needs.

I underscore that, for many if not most, this will be a matter of necessity unless we do what we must do to correct our course. I would like to make clear that this public housing inventory for the most part serves those at 30% of median and below. Absent a viable public housing program, these same families are at risk. My desire for change should not be interpreted as a retreat from this equally important imperative; to the contrary, we must continue to house families of low- and very-low-income in a responsible manner not only in Boulder but also around the country. This means that I must have the tools and the programmatic latitude and the ultimate flexibility to do so.

I have talked today about five essential attributes of a successful public housing program and the situation in which I find myself in Boulder. It is imperative that we create responsible change. We have in many ways reached a tipping point for public housing and this requires us to take bold steps now or run the risk of losing that which for millions must not be lost! Now is the time to put our heads together to reexamine the current program and, where necessary, initiate changes, or at a minimum look to launch pilot programs to test the effectiveness and utility of various scenarios.

Under the current programmatic rubric, I and many of my colleagues around the country are, or soon will be, looking for an exit strategy. More alarming than this is the simple fact that given the course of current events, many authorities with more than a handful of public housing units in their portfolios may be looking at their actual ability to stay in business. I sincerely believe that a widespread disposition of public housing is avoidable. I am hopeful that the outcome of this hearing and others that you will hold will lead us to a responsible course of action. In fact, I believe we can sustain that which I said at the outset is an irreplaceable asset.

I offer all that my staff and colleagues in Boulder and in the Rocky Mountain states can bring to the discussion as it proceeds, as indeed it must. NAHRO also stands ready and looks forward to working with you as you move forward. I would be happy at this point to answer any questions you may have and thank you again for the opportunity to appear today.